

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF WILLABROOK)	
SANITATION, INC. FOR AN)	
ADJUSTMENT OF RATES PURSUANT)	CASE NO. 96-568
TO THE ALTERNATIVE RATE FILING)	
PROCEDURE FOR SMALL UTILITIES)	

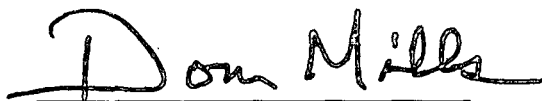
O R D E R

On November 26, 1996, Willabrook Sanitation, Inc. ("Willabrook") filed its application for Commission approval of proposed sewer rates. Commission Staff, having performed a limited financial review of Willabrook's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 15 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have no more than 15 days from the date of this Order, or 90 days after the date the application was filed, whichever is later, to provide written comments regarding the attached Staff Report or requests for a hearing or informal conference. If no request for a hearing or informal conference is received, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 6th day of May, 1997.

ATTEST:


Executive Director

PUBLIC SERVICE COMMISSION


For the Commission

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STAFF REPORT

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Rates and Research Division

STAFF REPORT

ON

WILLABROOK SANITATION, INC

CASE NO. 96-568

A. Preface

On November 26, 1996, Willabrook Sanitation, Inc. ("Willabrook") filed its application seeking to increase its rates pursuant to 807 KAR 5:076, the Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). Because Willabrook requested and received Commission Staff ("Staff") assistance in preparing its ARF application, Staff performed a limited financial review of Willabrook's test-period operations for the 1995 calendar year, prior to the filing of the application.

Mark C. Frost of the Commission's Division of Financial Analysis and Christopher H. Smith of the Commission's Division of Rates and Research performed the limited review on August 18 and 23, 1996, and October 31, 1996. Mr. Frost is responsible for the preparation of this Staff Report except for the determination of Operating Revenue; D. Tariff Filling; E. Rate Design; and Appendix A, which were prepared by Carryn Lee of the Commission's Division of Rates and Research. Based on the findings contained in this report, Staff recommends that Willabrook should be granted its requested increase in sewer revenues of \$33,576.

Scope

The scope of the review was limited to obtaining information to determine whether the 1995 operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

B. Analysis of Operating Revenues and Expenses

Operating Revenues

Willabrook reported test year operating revenues of \$2,483. A pro forma adjustment of \$752 was proposed to reflect the current number of customers served and their usage. As a result of the pro forma adjustment test year operating revenues from rates is \$3,235.

Operating Expenses

In its application, Willabrook reported actual and pro forma test-period operating expenses of \$39,155 and \$32,573, respectively. The following are Staff's recommended adjustments to Willabrook's actual test-period operations and discussion of Willabrook's proposed pro forma adjustments:

Owner/Manager Fee: Willabrook did not incur an owner/manager fee during the test period, however it did propose to include a fee of \$3,600 in its pro forma operations. Willabrook's proposed owner/manager fee is to compensate Virginia Wolf for being Willabrook's owner/manager and bookkeeper.

The management duties performed by Ms. Wolf are comparable to the general oversight responsibilities of a water district commissioner. According to KRS 74.020 (6), a water district commissioner shall receive an annual salary of not more than \$3,600. Given the similarities between the two positions and that the owner/manager is also Willabrook's bookkeeper, Staff is of the opinion that an owner/manager fee of \$3,600 is reasonable and recommends that Willabrook's proposed adjustment be accepted.

Sludge Hauling: Willabrook proposed a pro forma level of sludge hauling expense of \$3,411, an increase of \$2,807 above its test-period level of \$604. In 1996, the James Headen Septic Tank Service increased its sludge hauling fee from \$302 to \$379 per 5,000 gallon load, a fee which Staff finds reasonable. Willabrook's engineer estimated that the increased customer level will require Willabrook to haul 9 loads of sludge per year on an on-going basis.

Upon consulting with Larry Updike and Ben Muncy of the Commission's Engineering Division, Staff believes it is reasonable to expect Willabrook to haul 9 loads of sludge per year on a recurring basis. Therefore, Staff recommends that sludge hauling expense be increased by \$2,807 to reflect hauling 9 loads of sludge at the fee of \$379 per load.

Electric: Willabrook proposed a pro forma level of electric expense of \$7,079, an increase of \$341 over its test period level of \$6,738. Staff analyzed the test-period

invoices and determined that Willabrook had understated its electric expense by \$341, and therefore recommends that electric expense be increased by that amount.

Testing/Analysis: Willabrook proposed a pro forma level of testing/analysis expense of \$9,000, an increase of \$6,600 over its test period level of \$2,400. In 1995, the Division of Water increased Willabrook's KPDES testing requirement from monthly to weekly. Willabrook is also required to perform two special quarterly tests due to the type of discharge at Cracker Barrel and Waffle House. Beckmar Laboratory charges Willabrook \$106 per KPDES test performed and a fee of \$85 for each quarterly test, fees which Staff finds reasonable. An adjustment based on the Beckmar Laboratory's fees and Division of Water testing requirements would meet the rate-making criteria of being known and measurable. Accordingly, testing expense has been increased by \$6,600.

Routine Maintenance: Willabrook proposed to increase its test-period routine maintenance expense from \$3,000 to \$5,100, an increase of \$2,100. On July 1, 1996 the Andriot-Davidson Company, Inc. increased its routine maintenance fee from \$250 to \$425 per month, a fee which Staff believes is within a reasonable range for a treatment plant of Willabrook's size. An adjustment based on the increased fee would meet the rate-making criteria of being known and measurable, and therefore Staff recommends that Willabrook's proposed adjustment be accepted.

Maintenance - Treatment & Disposal: Willabrook proposed a pro forma level of maintenance - treatment & disposal expense of \$1,583, a decrease of \$1,399 from its test-period level of \$2,922. Staff analyzed the test-period invoices and determined that the following expenditures are non-recurring in nature, and therefore should be amortized rather than expensed:

Remove and Install Comminutor	\$ 557
Rebuild Comminutor	\$ 782

After consulting with Ben Muncy of the Commission's Engineering Division, it was determined that these non-recurring expenditures should be amortized over 3 years. Therefore, maintenance expense has been decreased by \$1,339 and amortization expense increased by \$513.

Outside Services: Willabrook proposed to increase its test-period expenses by \$400 to reflect paying its engineer to monitor the quarterly Cracker Barrel and Waffle House tests. Staff is of the opinion that the proposed \$400 annual monitoring fee is reasonable and that an adjustment to reflect this fee in test-period operations would meet the rate-making criteria of being known and measurable. Accordingly, Willabrook's test-period expenses have been increased by \$400.

Depreciation: Willabrook proposed to reduce its test-period expenses by \$20,478 to eliminate depreciation expense. Contributions in Aid of Construction ("CIAC") is a form of cost free capital to the utility. If depreciation expense on utility plant funded by

CIAC is included for rate-making purposes it would result in a double recovery of the plant investment from the contributors, Willabrook's ratepayers. Based on its review of Willabrook's 1995 Annual Report, Staff determined that utility plant was totally funded by CIAC. Therefore, Willabrook's proposed adjustment should be accepted.

Operations Summary

Based on Staff's recommendations contained in this report, Willabrook's operating statement would appear as set forth in Appendix B to this report.

C. Revenue Requirement Determination

An approach frequently used by this Commission to determine revenue requirements for small privately owned utilities is the operating ratio. This approach is used primarily when there is no basis for a rate-of-return determination or the cost of the utility has fully or largely been recovered through the receipt of CIAC. Staff recommends the use of this approach in determining Willabrook's revenue requirement.

Staff is of the opinion that Willabrook's requested operating ratio of 88 percent will provide a sufficient level of revenue to meet all of Willabrook's future expense obligations and to provide for a reasonable equity growth. An operating ratio of 88 percent

combined with Staff's proposed pro forma operations will result in a revenue requirement of \$36,811,¹ an increase in sewer revenues of \$33,576.²

D. Tariff Filing

Willabrook filed a tariff setting out a surcharge in the amount of \$0.35 per 1,000 gallons for each 100 mg/1 in excess of 300 mg/1 until quarterly tests reveal a BOD reduction at or below 30 mg/1. In discussions with Willabrook regarding the surcharge it stated that certain customers place an additional burden on the system by discharging bleach, grease and other ingredients into the system. No estimate could be given as to the revenue impact the surcharge would have on the system.

Since Willabrook cannot give an estimate as to the amount of revenue to be collected from the surcharge, Staff recommends that it be denied. Once Willabrook determines the estimated amount of revenue that would be produced by a BOD surcharge it can request that the Commission reconsider the issue.

¹	Staff's Pro Forma Operating Expenses	\$ 33,632
	Divided by: Recommended Operating Ratio	÷ 88%
	Total Revenue Requirement	\$ 38,218
	Less: Interest Income	- 1,407
	Revenue Requirement from Rates	<u>\$ 36,811</u>
²	Revenue Requirement from Rates	\$ 36,811
	Less: Normalized Operating Revenue	- 3,235
	Revenue Increase	<u>\$ 33,576</u>

E. Rate Design

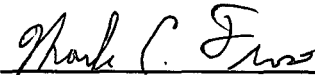
Willabrook's current rate design consists of four steps: first 3,000 gallons; next 3,000 gallons; next 194,000 gallons; and over 100,000 gallons. Willabrook's proposed rate design sets out a customer charge and a flat rate per 1,000 gallons of water usage. Staff agrees that this rate design more fairly allocates the costs of providing service among Willabrook's customers.

As mentioned previously in this report, Willabrook is required to perform two special quarterly tests due to the type of discharge at Cracker Barrel and Waffle House. The tests will result in additional annual expense to Willabrook in the amount of \$680. Additionally, an engineer will be required to monitor the special tests at a cost of \$400 per year. Staff recommends that Cracker Barrel and Waffle House pay a monthly surcharge in the amount of \$45³ to cover the costs associated with these tests. As a result of the recommended surcharge the customer charge proposed by Willabrook will decrease from \$74.72 to \$70.57 and the rate per 1,000 gallons will decrease from \$3.50 to \$3.42. The rates in Appendix A will produce revenues in the amount of \$36,815.

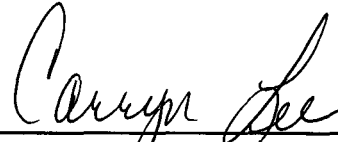
³	Testing and Analysis	\$ 680
	Add: Outside Services	+ 400
	Total Cost	\$ 1,080
	Divided by: 24 bills	+ 24
	Monthly surcharge	<u>\$ 45</u>

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F. Signatures



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APPENDIX A
TO STAFF REPORT IN CASE NO. 96-568

Monthly Rates:

Customer Charge:	\$70.57
All usage	3.42 per 1,000 gallons
Monthly Surcharge to Cracker Barrel and Waffle House	\$45.00
For each 100 mg/1 in excess of 300 mg/1	.35 per 1,000 gallons

APPENDIX B
TO STAFF REPORT IN CASE NO. 96-568

	Actual Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenue:			
Measured - Commercial	\$2,483	\$752	\$3,235
Operating Expenses:			
Operation & Maintenance Exp:			
Owner/Manager Fee	\$0	\$3,600	\$3,600
Sludge Hauling	604	2,807	3,411
Electric	6,738	341	7,079
Chemicals	303	0	303
Testing/Analysis	2,400	6,600	9,000
Routine Maintenance	3,000	2,100	5,100
Maintenance - Treatment & Disposal	2,922	(1,339)	1,583
Outside Services	1,635	400	2,035
Insurance	365	0	365
Miscellaneous	97	0	97
Total Operation & Maintenance Exp	\$18,064	\$14,509	\$32,573
Depreciation	20,478	(20,478)	0
Amortization	0	446	446
Taxes Other Than Income Taxes	613	0	613
Total Operating Expenses	\$39,155	(\$5,523)	\$33,632
Net Operating Income	(\$36,672)	\$6,275	(\$30,397)
Other Income:			
Interest Income	1,407	0	1,407
Net Available for Operations	(\$38,079)	\$6,275	(\$31,804)